5. At the service call centers observed in procedure 6 below, obtain and inspect scripts that Verizon BOC's customer service representatives recite to new customers calling, or visiting customer service centers, to establish new local telephone service. If these scripts contain language to attempt to sell interLATA services, note and disclose in the report whether these scripts inform the consumers that there are other providers of interLATA services and that these providers, along with the interLATA service affiliates, are identified to the consumers. In addition, obtain and inspect the written content of the Verizon BOC website for on-line ordering of new service and note and disclose in the report whether the consumers are informed that there are other providers of interLATA services and that these providers, along with the interLATA service affiliate, are identified to the consumers.

6. Observe (listen in for a statistically valid number of inbound calls) Verizon BOC's customer service representatives, see Procedure 5 above, responding to inbound callers requesting to establish new local telephone service to whom the sales representatives attempt to market the Section 272 affiliate's interLATA service. Labor union concurrence may be needed for this procedure. Note messages conveyed during observation. Note and disclose in the report any instances where the customer service representative steered the caller to obtain the interLATA services of the Section 272 affiliate, did not inform the caller of other providers of interLATA services, and did not inform the caller of his right to make the selection.

<u>OBJECTIVE VIII</u>. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

<u>STANDARDS</u>

Although the FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, reached various conclusions, a further proceeding in this matter, currently underway, will provide the implementing rules and regulations. We will revise these procedures to conform to the new rules and regulations when available so long as the new rules are adopted by the FCC, applicable to Section 272 relationships and to the extent in effect during the 2001/2002 engagement period. The conclusions reached by the Commission provide that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (See First Report and Order, para 240)

- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (See First Report and Order, para. 242)

- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its Section 272 affiliate at a given price. (See First Report and Order, para. 16)

In its Section 271 applications, Verizon made commitments regarding compliance with Section 272(e)(1) of the Act. This included the commitment to provide the performance monitoring that will assist in confirmation of nondiscriminatory performance in Verizon's dealings with its 272 affiliates. If the Commission adopts reporting requirements, Verizon BOC/ILEC will fully comply.

PROCEDURES

1. Document in the working papers the practices and processes the Verizon BOC/ILEC has in place to fulfill requests for telephone exchange service and exchange access service for the Section 272 affiliates, other affiliates, and nonaffiliates in each state where Verizon has been authorized to provide in-region interLATA services. If the Section 272 affiliates, other affiliates are treated differently than nonaffiliates, note and describe all differences in the report. Describe in the report the BOC's internal controls and procedures designed to implement its duty to provide nondiscriminatory service.

2. For each state where Verizon has been authorized to provide in-region interLATA services, document in the working papers the processes and procedures followed by the Verizon BOC/ILEC to provide information regarding the availability of facilities used in the provision of special access service to its Section 272 affiliates, other affiliates, and nonaffiliates. Note any differences. Inquire of management whether any employees of the Section 272 affiliates or other affiliates have access to, or have obtained, information regarding special access facilities availability in a manner different from the manner made available to nonaffiliates (e.g., direct calls, placed prior to ordering, from the Section 272 affiliates or BOC account managers to employees who may have facilities availability information). Disclose in the report any such instances..

3. For each state where Verizon has been authorized to provide in-region interLATA services, obtain written methodology that the Verizon BOC/ILEC follows to document time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), provisioning of service, and performing repair and maintenance services for the Section 272 affiliates, other affiliates, and nonaffiliates for the services described in Procedure 4, below. Briefly describe this methodology in the report. If the company does not have any written procedures inquire and document why in the report.

4. For each state where Verizon has been authorized to provide in-region interLATA services, obtain, and include as an attachment to the report, performance data maintained by the Verizon BOC/ILEC during the engagement period, by month, indicating time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), provisioning of service, and performing repair and maintenance services for the Section 272 affiliates, other affiliates, and nonaffiliates, as separate groups, for the following services:

   - Telephone exchange service, if the Section 272 affiliate resells local service or intraLATA toll service.

- Exchange access services for DSO, DS1, DS3, feature group D, and OCn, as individual groups. Feature group D data shall be limited to January through December 2002, and shall include only measures (b), (c), (d), and (e) noted below.

- Unbundled network elements, if the Section 272 affiliate leases any unbundled network elements from the Verizon BOC/ILEC.

- Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services (if the Section 272 affiliate provides this service) and interLATA services.

Where appropriate, the performance measures data shall reflect the standard deviation, as well as mean. For each of the above services, except for PIC change orders, the measurements shall be those that Verizon has committed to maintain in each Section 271 application to prove compliance with these nondiscriminatory requirements. These measurements are the same in all states where Verizon has obtained Section 271 approval, except for the state of New York. For the purpose of this audit, the measurements for New York shall be those that Verizon committed to for the other states. These measurements are as follows:

a. Firm Order Confirmation Response Time: i.e., The amount of elapsed time between the receipt of a valid order request (Access Service Request-ASR) from each group of carriers/customers and the distribution of a service order confirmation back to the customer. Indicate the total number of order requests for each service and for each group of customers.

b. Average Installation Interval: i.e., The average interval expressed in business days, between the date the service order of each group of carriers/customers was placed and the date the service order was completed for orders completed during the current reporting period. This amount excluded orders having commitment dates set by customers. This amount is calculated by dividing the total business days for all installation orders or circuits from each group of carriers/customers by the number of installation orders or circuits from carriers/customers. Indicate the total number of service orders for each service and for each group of customers.

c. % Installation Commitments Met: i.e., The percentage of commitments met during the current reporting period. This amount is calculated by dividing the number of installation orders or circuits from each group of carriers/customers completed by commitment date by the total number of installation orders or circuits. Indicate the total number of installation orders for each service and for each group of customers.

d. Total Trouble Reports: i.e., The total number of circuit-specific trouble reports referred to the BOC/ILEC by each group of carriers/customers during the current reporting period. Indicate the total number of circuit-specific trouble reports for each service, for each group of customers.

e. Average Repair Interval: i.e., The average interval, expressed in hours to the nearest tenth based on a stopped clock, from the time of the reporting carriers receipt of the trouble report to the time of acceptance by the complaining carrier/customer. This interval is defined as interval measure in clock hours, excluding only time when maintenance is delayed due to circumstances beyond the BOC/ILEC's control. Typical reasons for delay include, but are not limited to, premise access when a problem is isolated to the location or absence of customer support test facilities. This amount is calculated by dividing the total hours for the total trouble reports divided by the number of total trouble reports. Indicate the total number of trouble reports for each service, for each group of customers.

For PIC change orders, the measurements shall be as follows:

a. Average Time of PIC Change: i.e., Time measured from receipt of carrier initiated change to completion at switch. Indicate the total number of PIC change orders for each group of customers. For ILEC in Pennsylvania, average time of carrier-initiated PIC change will be measured on a percent completed within 24 hour basis.

Note and disclose in the report differences in time in fulfilling each type of request for the same services from the Section 272 affiliates, other affiliates, and nonaffiliates. Elicit explanations from Verizon where fulfillment of requests from nonaffiliates took longer than for own Section 272 affiliates. For PIC changes, provide in the report a linear graph for each state, over the entire engagement period, depicting the performance for the Section 272 affiliates, and nonaffiliates.

5. Perform a statistically valid sample of the underlying data used to compute the results in Procedure 4 above for the first 21 months of the audit period. From the resulting state/month/measure combinations, select a judgmental sample, that includes all services, for the latest month reported for each performance measure appearing in one state which is served by one of the OSS systems used by the BOCs to track performance data. (Each different OSS system should be tested separately for the sub-regions NY, NE (MA, RI, NH, VT, ME), and PA/DE/NJ.) Replicate the results obtained in Procedure 4 above. Compare the results as recomputed with the output data that is tracked and maintained by the Verizon BOC/ILEC and document any differences in the report.

6. Determine by inquiry, first, and then by inspection, how and where the Verizon BOC/ILEC makes available to unaffiliated entities information regarding service intervals in providing any service to the Section 272 affiliates, other affiliates, and nonaffiliates. Document the results in the report.

<u>OBJECTIVE IX</u>. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under Section 272 that operates in the same market.

<u>STANDARDS</u>

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its Section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its Section 272 affiliate. (See First Report and Order, para. 16)

- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its Section 272 affiliate. (See First Report and Order, para. 316)

<u>PROCEDURES</u>: This objective is closely related to Objective XI which contains procedures for the provision by the BOC of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain list of exchange access services and facilities with their related rates offered to each Section 272 affiliate and inspect to determine whether the Verizon BOC/ILEC makes these services and facilities available at the same rates and on the same terms and conditions to all carriers. For this purpose, inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered to each Section 272 affiliate with those offered to unaffiliated carriers. Note in the report all exceptions.

2. Obtain a listing of all invoices for exchange access services and facilities, by BAN, for one month (to be determined by the Oversight Team after discussing with Verizon) rendered by the Verizon BOC/ILEC to the Section 272 affiliate, and other interexchange carriers (IXCs). Using a statistically valid sample of billed items, inspect underlying details of invoices and compare rates charged, and terms and conditions applied to each Section 272 affiliate with those charged and applied to IXCs for the same services and note any differences. For purposes of making the comparison with the IXCs, for each billed item selected obtain a list of 10 IXCs (or less, if there are fewer matches) that ordered the same billed item during the same period. Apply a random number generator

to determine which IXC to compare with the rates, terms and conditions applied to each Section 272 affiliate. If differences are noted, pursue the matter further through inquiry of appropriate personnel and note why they occurred and disclose in the report.

3. Using the sampled invoices obtained in Procedure 2 above, trace the amount invoiced for exchange access services to each Section 272 affiliate and determine whether the amount invoiced was the amount recorded by the Verizon BOC/ILEC and paid by each Section 272 affiliate. For this purpose, identify and inspect method of payment such as cancelled checks, wire transfers, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Note any differences and inquire as to why they occurred and disclose in the report.

OBJECTIVE X. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have charged its separate affiliate under Section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

STANDARDS

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its Section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its Section 272 affiliate (See First Report and Order, para. 16). This requirement is met,
  - If the affiliate purchases exchange service and exchange access service at tariffed rates. (See First Report and Order, para. 256)
  - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under Section 251. (See First Report and Order, para. 256)
  - If the BOC files with the State Commission a statement of generally available terms pursuant to Section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's Section 272 affiliate obtains access or interconnection at a price set forth in the statement. (See First Report and Order, para. 256)
  - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (See First Report and Order, para. 257)
- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (See First Report and Order, para. 258)
- For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (See First Report and Order, para. 256). This tariffed rate must be the highest rate paid for access by

unaffiliated carriers. The BOC may consider the comparability of the service provided. (See CC Docket No. 96-150 Report and Order, para. 87)

PROCEDURES

1. Obtain a list of interLATA services offered by the Verizon BOC/ILEC and discuss list with appropriate Verizon BOC employees to determine whether the list is comprehensive. Compare services appearing on the list with interLATA services disclosed in the Verizon BOC's Cost Allocation Manual (CAM) and note any differences in the report. Compare the nonregulated interLATA services listed in the Verizon BOC's/ILEC's CAM with those defined as incidental in Section 271(g) of the Act and those interLATA services allowed under FCC order (for example E911) and note any differences and disclose in the report.

2. From the list of services obtained in Procedure 1 above, by using a statistically valid sample of interLATA services offered by the Verizon BOC/ILEC and not through an affiliate, determine whether the Verizon BOC is imputing (charging) to itself an amount for access, switching, and transport. Obtain usage details and tariff rates for each of the above elements. Match rates used in calculations with the tariff rates or those rates charged other interexchange carriers (IXCs) and note any differences in the report. Trace amount to the journal entry and to the general ledger of the Verizon BOC/ILEC. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by the Verizon BOC/ILEC is different from the one described above, disclose in the report.

3. For each of the following categories of services, viz., exchange access services, local exchange services, and unbundled network elements, provided by the Verizon BOC/ILEC to the Section 272 affiliate during the engagement period, document the total amount the affiliate has recorded for those services in its books and reconcile with the amount the affiliate paid to the BOC/ILEC and the amount of revenue reflected in the Verizon BOC's/ILEC's books for those services. Disclose differences, if any, in the report.

OBJECTIVE XI. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

STANDARDS

Valuation and recording procedures for sales or transfers of any interLATA or intraLATA facilities to each Section 272 affiliate, leasing of any unbundled network elements, or provision of any service by the BOC to each Section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC network services and unbundled network elements made available under Section 251 to each Section 272 affiliate must also be made available at the same price to unaffiliated companies. (See CC Docket No. 96-149, First Report and Order, para. 256)

PROCEDURES: This objective is closely related to Objective IX which contains procedures for the provision by the BOC of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain list of interLATA network services and facilities with their related rates offered by the Verizon BOC/ILEC to each Section 272 affiliate to determine whether the Verizon BOC/ILEC makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of informational media identified above, compare rates, terms, and conditions offered each Section 272 affiliate with the rates, terms, and conditions offered unaffiliated carriers and disclose differences in the report.

2. Obtain an invoice for interLATA network services and facilities for one month (to be determined by the Oversight Team after discussing with Verizon) rendered by the Verizon BOC/ILEC to the Section 272 affiliate and other interexchange carriers (IXCs) that receive these services from the Verizon BOC/ILEC. Using a statistically valid sample of billed items, inspect underlying details of invoice and compare rates charged, and terms and conditions applied to each Section 272 affiliate with those charged and applied to other IXCs for the same services and note any differences. For purposes of making the comparison with the IXCs, for each billed item selected obtain a list of IXCs that ordered the same billed item during the same period. Apply a random number generator to determine which IXCs to compare with the rates, terms and conditions applied to each Section 272 affiliate. If differences are noted, pursue the matter further

through inquiry of appropriate personnel and note why they occurred and disclose in the report.

3. Using the invoices obtained in Procedure 2 above, trace the amount invoiced to each Section 272 affiliate for interLATA facilities and services and determine whether the amount invoiced was the amount recorded by the Verizon BOC/ILEC and paid by each Section 272 affiliate. For this purpose, identify and inspect method of payment such as cancelled checks, wire transfers, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Note any differences and inquire as to why they occurred and disclose in the report.

Procedures for Subsequent Events

1. Inquire of management whether companies' processes and procedures have changed since the time of execution of these procedures and the end of the engagement period. If so, identify those changes and re-perform the related procedures to determine continued compliance with those requirements. Disclose in the report changes and results of the procedures re-performed.

2. Inquire of and obtain written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Disclose in the report any such event.

Verizon's Comments to the Biennial Section 272 Report, Dated June 11, 2003

Section 272 Audit Report Issue/Report Language	*Management Response*
APPENDIX A- Domestic 272s	
Objective I, Procedure 5 We obtained the balance sheet and detailed fixed asset listing, including capitalized software, as of September 30, 2002 for VLD, VES, GNI, VSSI and GSI. We compared the fixed asset balances in the balance sheets to totals listed on VLD's, VES's, GNI's, VSSI's and GSI's detailed fixed asset listings and noted the following: • For VSSI, we noted the fixed asset amount in the balance sheet is $1,535,253 more than the total amount on the detailed fixed asset listing. We inquired of management and management indicated that the difference is due to certain credit amounts and write-offs held in a clearing account, which had not yet been classified to the appropriate fixed asset category, in the balance sheet.	The differences between the balances on the September 30, 2002 balance sheet and the totals on the VSSI detailed fixed asset listing are due to: a) amounts that were known differences awaiting write-off and b) amounts held in a fixed asset clearing account that had not yet been classified to the appropriate fixed asset category in the balance sheet as of September 30, 2002. The known differences were written off and the clearing account was cleared to the appropriate fixed asset categories in the balance sheet as of December 31, 2002. The detailed fixed asset record was updated also for the clearings. As of the December 31, 2002 balance sheet, no differences existed, therefore the amount on the balance sheet was properly stated and conformed to GAAP.
Objective II, Procedure 2 For 2 of 20 leases, we noted that the "Statement of Financial Accounting Standards No. 13, Accounting for Leases" assessment indicated that the leases were not properly recorded as a capital lease.	The determination of capital lease treatment requires one to have several pieces of data such as equipment useful life, residual value, future lease payments, and the terms of the lease contract in order to perform a SFAS #13 capital lease test. In this instance, the accounting for leases transactions was performed at remote locations and not by the centralized accounting staff. Verizon has instituted new procedures to strengthen internal accounting controls. Effective immediately, the central accounting staff in Frazer, Pa. will perform a SFAS #13 capital lease test on all new leases by obtaining all pertinent information directly from Verizon Credit Inc., the lessor, when a new lease or an amendment of an existing lease is executed. The remaining value of the lease obligation liability at March 31, 2003 will be recorded in the financial statements of VSSI in the second quarter of 2003 by increasing leased assets and by recording a corresponding lease obligation liability. The impact of this misstatement was not significant to the balance sheet or the income statement of the VSSI legal entity.
Objective V &VI, Procedure 4 We inquired of management regarding the provisioning of services without written agreements. Management indicated the following (Also Reference Appendix B-1, Objective V/VI, Procedure 4):	During the engagement period, Verizon self-disclosed 9 instances where services between the domestic 272s and the ILECs were provided prior to the execution of a written agreement or amendment. Since Verizon began its Section 272 compliance activities, more than 1300 contractual arrangements have been executed.

Section 272 Audit Report Issue/Report Language	***Management Response***
	Of the 9 instances: • 3 reflect GTE relationships that were in place prior to the merger with Bell Atlantic and that continued without a contract for a period after the merger. • Prior to service provisioning, in 2 instances, an element of the contract was excluded due to human error. • 1 was associated with Verizon's post 9-11 reconstruction activities. • In the remaining 3 instances, the activities performed without a contract were very limited. Eight of these instances have been remediated and written agreements/amendments have been executed. In one instance, an amendment is currently being executed. In all cases, the agreements/amendments are executed as soon as a condition is identified.

<table>
<tr><th><u>Section 272 Audit Report Issue/Report Language</u></th><th><u>Management Response</u></th></tr>
<tr><td><u>Objective V &VI, Procedure 5</u>
We printed copies of the website postings for the 81 written agreements, including the corresponding 121 amendments, as of December 31, 2002. We compared the rates, terms and conditions of services between the web postings and the written agreements provided in Procedure 4 above and noted the following differences (Reference Tables 6 and 6a):</td><td>The FCC's contract posting requirements are complex, requiring a multitude of data entries to be posted for each contract. Indeed, many contracts require the mapping of hundreds (in some cases, thousands) of data elements for a single contract. For example, some of the contracts reviewed by PricewaterhouseCoopers contain thousands of rate elements e.g., Access Service Agreements and other Telecommunications Services agreements. Failure to perfectly map one of a 1000 rate elements from the contract to the web would be reflected as a discrepancy for that contract for the rate category. There is no allowance for typographical or administrative human error or oversight. Using a conservative estimate, Verizon's overall web error rate is less than 1%.

As summarized in Table 6a, PricewaterhouseCoopers' notes the following differences: (a) effective dates of the contracts don't match their associated web postings, and (b) posted rates don't match the contract.

1. <u>Terms</u>. PricewaterhouseCoopers' assessment reflects 14 occurrences where the term of an agreement/amendment and its web posting do not match. To receive a "-", PwC looked for a matching of the start date and the end date. A discrepancy in either of these elements results in a failure for the category. Seven (7) of the 14 are associated with publicly available interconnection agreements in the former GTE territory. Further, state commission approval of these agreements is required, and may dictate the effective date of an agreement in certain states. In addition, the effective date of the agreement/amendment may be distinct from the execution date, pursuant to the agreement of the parties.

The other 7 are all VES agreements. Each of these errors was due to administrative or human error. Specifically, in six of the cases, the effective date for a contract was posted, rather than the effective date for the contract's executed amendments. In the other case, the contract was posted with the wrong contract end date; it was reflected with a one-year term rather than as evergreen.

2. <u>Rates</u>. PricewaterhouseCoopers' assessment reflects 15 occurrences where a contract/amendment and its associated web posting do not display matching rates.
• Nine are associated with publicly available interconnection agreements in the former GTE territory. Rates for these agreements are a matter of public record, may be "interim" in nature and are subject to changes in tariff filings that become effective, commission orders or changes in applicable law. When executed, the agreements typically contain language that automatically adopts applicable future rate changes. Such subsequent rate changes are</td></tr>
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Section 272 Audit Report Issue/Report Language	*Management Response*
	not, however, routinely reduced to writing by the parties to the agreement in the form of an amendment. As a result, the rates that are currently available may not match those that were originally negotiated between the parties. To avoid confusion, rather than post "contracted rates" (which may differ from effective rates), the Verizon web site refers to the applicable Docket number governing the generally available rates. • Five contain multiple rate elements (one with as many as 523 elements, e.g., 522 were posted correctly, one rate was missing and that is counted as the principal error). To be noted as a discrepancy, Verizon simply had to fail to map each and every rate perfectly. • One instance was due to human administrative error or oversight. All warranted corrections are being made.

Section 272 Audit Report Issue/Report Language	*Management Response*
Objective V &VI, Procedure 5 We noted that 19 of the 81 written agreements were prepared in the form of Access Service Requests ("ASR"), which did not contain the sufficiently detailed information necessary to enable us to agree the specific rates, terms, and conditions in the written agreements to their respective web postings (Reference Table 7). Management indicated that ASRs, coupled with applicable tariff pages, provide the terms and conditions for access service. Management indicated that requests for access service were originally handled on an individual basis using an ASR. A Memorandum of Understanding was subsequently written to include all access services.	The Access Service Agreements ("ASRs") do not contain information about rates, terms or conditions because they relate to access services provided under tariff. The Act requires Verizon to include the rates, terms and conditions for access services in publicly available tariffs. All 19 instances related to requests by Verizon Global Networks Inc. ("VGNI") for access services. Verizon met the Section 272(b)(5) requirement for written agreements by executing and posting the ASRs from VGNI. Verizon currently executes and posts Memorandums of Understanding that cover access services ordered under ASRs
Objective V &VI, Procedure 5 3 of the 81 written agreements were not posted on the Section 272(b)(5) website as of December 31, 2002 (Reference Table 8). Management indicated that each of these contracts was removed one year after expiration as communicated to the Commission staff and as discussed in Verizon's 271 applications.	It is Verizon's practice to remove agreements from the websites "one year after the expiration or termination of the agreement." This practice is documented in Verizon's web posting procedures, which are available on each 272 affiliate's internet web site. Moreover, this practice was communicated to the FCC's staff and was further disclosed in Verizon's 271 applications. It should be noted that 2 of the 3 contracts would have been available for review during the previous audit engagement for calendar years 1999 and 2000. Specifically, both are GTE contracts from 1998 that were posted on 6/28/00 in anticipation of the BA/GTE Merger Close. The third contract was an agreement to assign a vendor contract from one Verizon affiliate (VSSI) to another Verizon affiliate (VZ-SW). It did not result in the provisioning or procuring of goods and services between the affiliates. Rather, the contract resulted in a contractual arrangement between an unaffiliated third party and the ILEC. It was posted as an agreement with a one-day term (the date of the assignment). As a result, this contract was removed one year after the date of the agreement (in September 2002), before the auditors had an opportunity to inspect it during the current audit engagement. Such assignment contracts are administrative in nature, not common in occurrence and did not effect terms, conditions and pricing of services being offered.

Section 272 Audit Report Issue/Report Language	*Management Response*
Objective V &VI, Procedure 5 We visited four Verizon BOC/ILEC locations judgmentally selected by the Oversight Team, Massachusetts, New York, Pennsylvania, and Texas, to determine whether the same information in the written agreements obtained in Procedure 4 is made available for public inspection at the principal place of business of the Verizon BOC/ILECs. We inspected 87 written agreements, 13 of which were inspected in multiple states. We noted the following during our inspection of agreements: •8 agreements in total, 6 agreements in Pennsylvania, 1 agreement in Texas, 1 agreement in both Pennsylvania and Texas, were not available for public inspection during our visit (Reference Table 9). For Pennsylvania, we inquired of management and management indicated that 4 of the 6 agreements were available on CD-ROM and of the remaining 2 agreements, one had a hard copy that was available at the site for inspection.	PricewaterhouseCoopers visited 4 of Verizon's 17 Public Inspection sites[1] and, collectively, inspected 87 contracts. On average, each site maintains more than 400 separate contracts. In some cases, however, the number of managed contracts by site can exceed 500. Verizon estimates that all the inspection sites combined maintain over 8000 copies of contracts. PricewaterhouseCoopers erroneously sough to review five VADI contracts at the headquarters of two of its sister ILECs: Verizon PA and Verizon SW. As prescribed by section 272 (b)(5), however, VADI contracts are made available for inspection at VADI's headquarters. VADI's headquarters is located at 1166 Avenue of the Americas, New York, New York and was not visited by the auditor. Of the three remaining instances, two of the three requested documents were indeed readily available in paper form for inspection at the public inspection sites. Had the visitor asked for assistance, Verizon could have readily produced the requested documentation. Due to human error, however, one of the 87 contracts (about 1%) was not available for inspection.
Objective V &VI, Procedure 5 During the inspection of agreements in New York, Massachusetts, Pennsylvania, and Texas, we noted that pages for 6 agreements were not available for inspection (Reference Table 10). We inquired of management and management indicated that 3 of the 6 agreements are available on CD-ROM and contain the missing information	PricewaterhouseCoopers indicates that 6 contracts have missing pages. Clearly, these omissions are due to administrative copying errors when duplicating large amounts of paper files. It should be noted, however, that in addition to paper copies, Verizon maintains electronic copies of most of its contracts at the public inspection sites. In three of these cases, the "missing" pages were actually readily available for inspection, at the site, using the CD-ROM electronic copies. Had the visitor asked for assistance, Verizon could have readily produced the requested documentation.
Objective V &VI, Procedure 5 During the inspection of agreements in New York, Massachusetts, Pennsylvania, and Texas, we noted that 7 agreements were available without dates on them (Reference Table 11). Management indicated that complete copies for 6 of the 7 agreements were available on CD-ROM. Management also indicated that the effective date for 1 of the 7 agreements is the date of the last signature of the contract, and is included on the signature page.	The discrepancies noted by PricewaterhouseCoopers evidence the extremely manual nature of maintaining the public inspection offices. For example, due to human error, effective dates, while included on the CD-ROM version of the contracts, were not written on the paper copies for 6 of the 7 contracts. Between the web postings and the CD-ROM files, however, the effective dates for these activities could be readily determined. In the one instance, the effective date was also readily displayed on the signature page of the contract. In only one instance (again, due to human error) was the effective date not available on either the

[1] In the 5 years that Verizon has maintained these public inspection sites, Verizon has received only 4 requests to inspect the contracts. No requests have come from an Interexchange carrier since the year 2000.

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	hard or electronic versions of the contracts made available for public inspection.

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Objective V &VI, Procedure 5 We inquired of management and management indicated that the following late postings were due to administrative errors (Reference Table 12)	PricewaterhouseCoopers' assessment reflects 8 sampled instances of late postings. Of these, two are associated with contracts that were executed and posted in 1998; they are outside of the audit period. One is associated with a contract that was executed in 2000 and remediated in 2001. None of the late postings is associated with contracts that were executed in 2002. More than half of the noted postings were posted within a month of contract execution. Of these one was late due to the Christmas/New Year holiday.
Objective V &VI, Procedure 5 Management also self disclosed a list of agreements which were posted after ten days of signing the agreement or the provisioning of the service (Reference Table 15). These agreements were not included in our sample in Procedure 4 above.	Thirteen (more than half) of the listed postings are associated with contracts executed in 1999 and 2000, but posted during the audit engagement period. As is evident by the posting dates, most of these were discovered during Verizon's internal posting remediation exercises during May/June and November/December 2001. The balance of the disclosed contracts is associated with 2001 contracting activities. Of these, more than half were posted less than 1 week late. None of the listing reflects contracts executed in 2002. Almost 90% of the listed posting are associated with VSSI. Of these, more than half of the agreements were posted less than two weeks late. The posting delays fall into the following basic categories: 1. The four agreements with the longest posting delays were for former GTE contracts originally executed prior to the merger with Bell Atlantic. Prior to the merger, the former GTE companies were not obligated to post their affiliate agreements. While the majority of such agreements were posted at merger closing, this date was in all cases more than 10 days after the effective date of such agreements. There was no obligation under the federal rules to post these agreements any sooner. Four amendments to these pre-merger agreements were inadvertently missed in the large volume of posting at merger. 2. One agreement with its associated 25 amendments was posted 6 days beyond the 10 calendar days. VSSI was made a party to this agreement between the BOCs and VLD and VES in Amendment #25. The delayed posting was due to the large volume of work required to simultaneously post all 26 documents. 3. The remaining late posting were due to administrative and technical process issues. All but two of these were addressed by standardizing Verizon's posting procedures in October 2001, and through additional training of employees as required.
Objective V &VI, Procedure 5 We noted the following agreements did not contain some of the	PricewaterhouseCoopers' assessment in Table 16 is comprised of a 10-point comparison between a

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required disclosures for posting (Reference Table 16). We inquired of management and management indicated the missing disclosures were due to administrative errors.	contract and its associated web posting. As previously noted, there is not a 1-to-1 correlation between a match, "-", and the number of data entries reviewed within a particular category. More than half of the 10 categories assessed by PWC in Table 16 require the successful mapping of multiple data elements to achieve a match. Moreover, almost 80% of the noted discrepancies are associated with one posting oversight: failure to add a one-sentence description of the components of Verizon's Fully Distributed Cost ("FDC") calculations. Because PricewaterhouseCoopers was looking for three specific disclosures within the FDC description, it noted three discrepancies each time the definition wasn't displayed. In addition, almost all of these "FDC description" errors are attributable to one of the Verizon Section 272 affiliates, Verizon Enterprise Solutions. This affiliate inadvertently stopped including this definition in its write up for several months. Missing the definition of fully distributed cost, however, would not effect terms, conditions and pricing of services being offered.
Objective V &VI, Procedure 6 We requested a listing and amounts of services rendered by month by Verizon BOC/ILECs to each 272 affiliates from January 3, 2001 through September 30, 2002. Management indicated that the services made available to the 272 affiliates and not made available to third parties were marketing and sales services. We inquired of management and management indicated that VLD, VES, and VSSI were the only Section 272 affiliates that purchased marketing and sales services from January 3, 2001 through September 30, 2002. From a list of 828 transactions for VLD, VES, and VSSI, we selected a random sample of 88 marketing and sales transactions. For the sample selected, we obtained the Fully Distributed Cost ("FDC") and Fair Market Value ("FMV") unit charges for the services as well as journal entries for the Verizon BOC/ILEC to determine whether these transactions were recorded in the books of the Verizon BOC/ILECs in accordance with the affiliate transaction rules. We also requested copies of the invoices for the sample that reflect the unit charges for the transactions. For 4 of the 88 transactions, the amount for the sample selected was a credit balance and the invoice did not contain unit charges. We traced the invoiced amount to the books of the Verizon BOC/ILEC and noted no differences.	For all of the 4 credit balance transactions selected by PricewaterhouseCoopers and noted in the report, PricewaterhouseCoopers was provided with the back-up documentation for the unit charges that resulted in the amount on the invoice provided to the long distance affiliates.

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For 1 of the 88 transactions, management indicated that the invoice was billed in error. We traced the original invoice amount to the books of the Verizon BOC/ILEC and noted no differences. We also obtained the subsequent reversing journal entry from management.	

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Objective V &VI, Procedure 7 For 10 of 87 samples, management indicated they were unable to locate the corresponding amount in the Verizon BOC/ILECs' books (Reference Table 18).	As detailed below, the 87 invoices translated into hundreds on line items requiring investigation. The four LD Voice samples totaling $5,540.63 could not be located in the BOC/ILECs books due to the following process. VSSI generates and sends a flat file containing hundreds of line items to Verizon Service Group, which in-turn sends it on to a third party for allocation to the various BOC/ILEC's. The BOC/ILEC's are then responsible for paying VSSI separately. All revenue received is applied to a single customer number on VSSI accounts receivable. The VSSI CPE Moves and Changes (MAC), CPE Other, and CPE Maintenance invoice numbers are converted to an ILEC purchase number by ILEC personnel. The ILEC personnel could not locate the appropriate file that would provide Accounts Payable with the reference number to extract required data. The 5 samples items totaled $12,176.01 and contain 3 credit memos with a total of $190.
Objective VII, Procedure 1 We requested from the Verizon BOCs the procurement awards to each Section 272 affiliate from January 3, 2001 through September 30, 2002. Management indicated these services were provided to the BOCs on a sole source basis without soliciting bids: • "Prepaid Calling Cards – VSSI Card Services provided pre-paid calling cards to the BOCs, including cards with custom artwork, for use at corporate events as give-away items. The service has been terminated. • Use of Voice Mail – After the separate data affiliate requirement for VADI sunset on September 26, 2001, VADI continued to temporarily occupy space previously leased by VES at 1166 Sixth Avenue in New York City. VES had an existing Voice Mail system with extra capacity. VADI used this capacity to avoid the expense and wait associated with installation of a second system. VADI discontinued use of this service on January 31, 2002 when it vacated the building. • Web Maintenance Service – After the separate data affiliate requirement for VADI sunset on September 26, 2001, GNI continued to maintain the VADI website that was required up until that point to post all VADI transactions with the ILECs. Although	During the engagement period, Verizon self-disclosed 3 instances where services were provided on a sole sourced basis. Two of these three noted instances involve VADI relationships that were in place prior to VADI's classification, by the FCC, as a successor or assignee of the local exchange companies. Until that time, VADI was classified as a non-regulated affiliate and, as such, its transactions with section 272 affiliates were not subject to section 272(b)(5) requirements. However, upon the sunset of the separate data affiliate requirement, Verizon documented the existing relationships as required by section 272(b)(5), then later terminated them. In the remaining case of the VSSI prepaid calling cards, the service has been terminated.

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the website was not required after sunset, GNI maintained it in order to provide data for the merger audit. This service was discontinued in September 2002 when it was determined that the information was no longer needed for the audit."	
Objective VII, Procedure 6 For 9 of the 100 inbound calls, we noted that the customer service representative did not inform the caller of other providers of interLATA services, or did not inform the caller of his right to make the selection (Reference Table 24). In 1 of the 9 calls (noted by an '*' in Table 24), we also observed the following: The customer service representative asked the customer if she wanted long distance service and told her, "If you choose Verizon, there is no extra charge, but if you choose another carrier, then there is a one-time fee of $5." Customer then declined long distance service. Management indicated the representative erred when mentioning the $5.00 PIC Change Fee since it is not applicable to customers who are selecting an interLATA carrier when establishing new local telephone service with Verizon.	During the call observation sessions, both a PwC and a Verizon management representative observed each call. When the representatives offered Verizon Long Distance service for the interLATA carrier, notations were made to indicate if the representatives advised the customers that they had a choice of interLATA carriers and offered to read the list of available interLATA carriers. The responses below are based on Verizon management's notations recorded during the call observation sessions. For each call referenced in Table 24, PwC identified the representative's PIN. The Verizon management representative, who observed with PwC, noted the following for four of the nine reported calls: • Verizon noted that, for three of the nine calls PwC reported as not meeting criteria, the representative did meet all criteria. Where PwC indicated that the representative did not offer to read the list of carriers, Verizon noted that, after the representatives advised the customers that they had a choice of carriers, the customers interrupted with their choice of carrier. Since the customer's choice was made, the representative did not offer to read the carrier list. • Verizon noted that for the one call PwC reported involving the mention of a one-time fee, the representative erred when mentioning the $5 PIC Change Fee since it is not applicable to customers who are selecting an interLATA carrier when establishing new local telephone service with Verizon. Verizon does not agree that the representative's comments were an attempt to steer the caller to the 272 affiliate. Verizon does not agree with PwC's reported findings for the calls referenced in the bullets above. Moreover, Verizon uses a Voice Response Unit (VRU) that includes the neutral script so that most customers, who are calling to order new local service, prior to reaching a call center representative, hear the following: "You have a choice of local (or regional toll) and long distance providers. A list of providers is available." <u>Action Taken by Verizon</u> At the conclusion of each call observation session associated with this data request, for each occurrence where the representative did not meet all PIC Neutral criteria, Verizon call center

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	management discussed the observed call with the individual representative. In each case, the discussion was documented for retention in the employees' personnel file. Verizon regularly observes calls between call center representatives and customers to monitor compliance to Section 272 rules and regulations. A process is in place to notify call center management of all occurrences where PIC Neutral criteria is not met and to record action taken with the representative to correct performance. Verizon management provides ongoing training, development and coaching to call center representatives to ensure compliance with all FCC rules and regulations associated with PIC Neutral (Equal Access Scripting). Verizon maintains for all call centers up-to-date methods and procedures, detailing for the call center representatives the PIC Neutral requirements and associated scripting.

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APPENDIX B – fGTE/International 272s	
Objective I, Procedure 3 We inquired of management which entities perform operations, installation and maintenance ("OI&M") functions over facilities either owned or leased by TCI. Management indicated the following: "GTE Communication Systems Corporation, a non-regulated Verizon affiliate, acting through its Verizon Logistics division provided repair of plug-in cards for TCI switches located in Canada from the merger closing date through 2002. As part of the repair service, Verizon Logistics tested the plug-in cards on a test switch owned by Verizon California. The test switch was not connected to the network. Verizon Logistics discontinued providing the services to TCI in 2002. A contract between TCI and Verizon California for use of the test switch by Verizon Logistics during the past period was executed on April 10, 2003. Said agreement has been posted to the TCI Section 272 website for pubic inspection. Verizon Logistics is currently training TCI employees to repair their own cards." We inquired of management whether or not any of these services are being performed by Verizon BOC/ILECs and other affiliates, on facilities either owned or leased by TCI. Management indicated the following: "Between January 18, 2001 and January 22, 2002 TCI's Systems Support and Repair organization located in Burnaby, British Columbia repaired six Verizon GTD5 plug-in cards sent by Verizon Logistics for repair on behalf of Verizon Florida. TCI agreed to provide Verizon repair services and services were provided on an "as is" basis, without any representations or warranties of any kind. The total charge for the service was $2,636.02. On March 12, 2003, a services agreement was entered into between TCI and Verizon regarding these transactions. Said agreement has been posted to the TCI Section 272 website for public inspection."	These were relatively two small transactions between the affiliates. To be conservative, Verizon has categorized these as potential OIM transactions. The transactions were not between a BOC and a Verizon's primary 272 affiliates, but rather were between a non-regulated affiliate (Logistics) and a minority owned Section 272 affiliate, TCI and between a fGTE ILEC and TCI. Upon identifying these two transactions, Verizon took the necessary steps to obtain in writing the agreement between VZ CA and TCI regarding the use of VZ CA's test switch in connection with the card repairs performed by Verizon Logistics for TCI and the agreement between VZ FL and TCI regarding the repairs performed by TCI for VZ FL. Both of these agreements were posted to TCI's website as a good faith effort to reduce these transactions to writing and make them available for public inspection for the short time that the transactions occurred. Moreover, Verizon has since ceased both of these transactions and has communicated to and reinforced with TCI management (a minority owned Section 272 Affiliate in Quebec, Canada) that transactions of this nature should not be performed. VZ Logistics has instituted a full company-training program to educate Verizon Logistics employees on the Section 272 and Affiliate Transactions rules Dollar amounts and number of cards: a. CA Repair - $10,744 (for use of the test switch between 7/1/00 – 12/31/02) and $248,032.04 (for the card repairs) b. FL Plug-ins – 6 cards repaired (5 on '01 and 1 in '02); total billing $2,636.02 Both activities have been terminated.
APPENDIX B-1 – fGTE/International 272s - SEE ABOVE	
Objective V &VI, Procedure 4	

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We inquired of management regarding the provisioning of services without written agreements. Management indicated the following (Reference Appendix A, Objective V/VI, Procedure 4):	Verizon self-disclosed six instances during the engagement period where provisioning of services between an international 272 and an ILEC occurred prior to the execution of a written agreement or amendment. Five of the 6 cases reflect GTE relationships/activities that were in place prior to the merger with Bell Atlantic. These relationships/activities continued, post-merger, for some period of time, without a contract. All of these activities have been contracted and terminated. The remaining instance is associated with the provision of tariffed telecommunications services. Verizon is currently executing an agreement/amendment to reflect this relationship.
Objective V &VI, Procedure 5 Management disclosed a list of agreements that were posted after ten days of signing the agreement or the provisioning of the service (Reference Table 36).	The four noted late postings are actually associated with two contracts: Directory Assistance and Service Bureau. These agreements were posted in response to the Bell Atlantic/GTE merger. While the majority of the GTE ILEC/272 agreements were posted "on time", these two did not get posted until September. They were inadvertently missed in the large volume of posting at merger. Regarding the Extension and Termination Agreements associated with the Service Bureau Agreement, they were posted late due to a misunderstanding as to whether letters of understanding or notification, rather than actual agreements and amendments, had to be posted.